# Colorado Legislative Council Staff FISCAL IMPACT STATEMENT

**Date:** August 29, 2006 **Fiscal Analyst:** Gary J. Estenson — 303-866-4976

**BALLOT TITLE:** An amendment to the Colorado constitution concerning the state minimum wage, and, in connection therewith, increasing Colorado's minimum wage to \$6.85 per hour, adjusted annually for inflation, and providing that no more than \$3.02 per hour in tip income may be used to offset the minimum wage of employees who regularly receive tips.

Fiscal Impact Summary	FY 2006/2007	FY 2007/2008
State Revenues General Fund	Not Quantified	Not Quantified
State Expenditures Multiple Funding Sources	Up to \$1.4 million	Up to \$2.8 million
FTE Position Change	0.0 FTE	0.0 FTE
Effective Date: Upon voter approval; January 1, 2007.		
Appropriation Summary for FY 2006/2007: Will be addressed through the budget process.		
Local Government Impact: See Local Government Impact section.		

## **Summary of Amendment**

This amendment increases from \$5.15 to \$6.85 per hour the state minimum wage for salaried workers and increases from \$2.13 to \$3.83 per hour the state minimum wage for workers receiving tips. These increases are effective January 1, 2007. Thereafter, the minimum wage is increased annually based on the Consumer Price Index (CPI) used in Colorado.

# **Background**

The minimum wage is established by federal law but states may institute a higher minimum wage. The current federal minimum wage is \$5.15 per hour for salaried workers and \$2.13 per hour for workers who receive tips. The state minimum wage currently equals the federal minimum wage but it may be adjusted by the Colorado Department of Labor and Employment in response to employment conditions and occupational changes. Colorado law does not allow cities and towns to establish a separate minimum wage.

Under current law, the state is exempt from Colorado wage laws and therefore state minimum wage laws do not apply to state employees. However, the state must comply with the federal minimum wage. Under the constitutional amendment state employees would also be subject to the state minimum wage.

#### **State Revenue**

**Income Tax.** The amendment may impact income tax revenue depending on how workers and employers respond to the increase in the minimum wage. Currently, the state income tax is 4.63 percent of a person's federal taxable income regardless of the person's income level. Some workers who earn wages at or near the minimum wage have multiple jobs. If workers continue to work the same number of hours, income tax revenue may increase. Conversely, if employers reduce work hours, income tax revenue may decrease or remain unchanged. Additionally, employers can deduct an increase in labor cost from the overall income tax liability of their businesses. Therefore, business income tax collections may be affected.

*Sales Tax.* The state sales tax is 2.9 percent on retail sales. If workers spend additional disposable income on retail goods, sales tax revenue may increase. However, sales tax revenue may decrease if businesses raise costs to offset wage increases, resulting in less consumer spending.

*Net Change in State Revenue.* Less than 1 percent of workers statewide earn the current minimum wage and fewer than 7 percent earn wages below the minimum wage established by this amendment. Wages paid to these workers represent an even smaller percentage of the total wages paid to all workers. As such, significant changes to total state income, employment, consumer spending, and the price of retail goods is anticipated to be small, resulting in only minimal changes in total state revenue. Because of multiple variables, the net change to state revenue is not quantified at this time.

### **State Expenditures**

**State Employees.** The amendment's cost is estimated at \$1.4 million in FY 2006-07 and \$2.8 million in FY 2007-08. The only state workers impacted by this amendment are student workers employed in part-time work-study positions at state colleges and universities. Most earn more than the current minimum wage but less than the minimum wage required by the amendment.

Based on current wages paid, it is estimated that this amendment will increase costs to state colleges and universities by \$1.4 million in FY 2006-07 (6 months of fiscal year), and \$2.8 million in FY 2007-08. Because the amendment requires annual inflationary adjustments based on the CPI, second and subsequent year costs are likely to increase. At this time, inflationary increases for 2007 and 2008 have not been calculated into the cost for FY 2007-08.

Wages for work-study jobs are paid through a combination of federal, state, institutional, and private funds. The need for funding created by this amendment could be addressed by increasing state funding, increasing student tuition or fees, reducing work-study hours, or combining these options. The actual state cost will depend on the options used by the schools and the legislature.

Based on current job classifications and salaries paid, all other state workers earn more than the \$6.85 per hour wage established by this proposal.

# **Local Government Impact**

The fiscal impact of this amendment on local government has not been estimated, though expenditures would increase for those governments that currently pay workers at or near the minimum wage. Any change in local tax revenue cannot be quantified at this time.